

INTERIM REPORT OF THE INSPECTOR APPOINTED BY THE REGISTRAR OF
BUILDING SOCIETIES UNDER SECTION 5(5)(c) OF THE BUILDING
SOCIETIES ACT, 1894, TO EXAMINE INTO AND REPORT ON THE
AFFAIRS OF THE BLACKPOOL BUILDING SOCIETY

INTRODUCTION

1. I was appointed inspector under section 5(5)(c) of the Building Societies Act, 1894, on the 28th February, 1956, to examine into and report on the affairs of the Blackpool Building Society, a registered building society whose chief office is at 30-31 Park Lane, London, W.1. The inspection was initiated by four members of the society who furnished evidence by statutory declaration of facts which called for investigation. This statutory declaration and an earlier statutory declaration referred to therein are set out respectively in Appendix A and B to this report. In carrying out my inspection I have considered it my duty not to limit myself to the facts mentioned in the statutory declarations but to enquire generally into the affairs of the society and the conduct of them as far back as appeared to me relevant to their present state.
2. For the purpose of my enquiry I have examined the society's books of accounts and minutes of meetings. They were produced to me on the 17th March after I had required their production on the 7th March under powers given to me by section 5(3) of the Act already mentioned. This examination took place at the society's chief office and so far as was then possible was completed within five weeks. Unfortunately the books were not fully made up for the year 1957, in particular the accounts in the Ledger had not been closed in all cases and the London Cash Book showed some significant omissions which were due, and are still due, to be filled in. From these books I have therefore been able to obtain an accurate picture of the society's financial affairs only up to the beginning of 1957. Numerous enquiries about various aspects of the society's affairs have also been made from persons whom I thought capable of throwing light on them and on the activities of the individuals connected with the society. Some of the persons who gave me information had themselves taken the initiative of getting in touch with me when they heard that an inspection of the society's affairs was taking place. Unfortunately further enquiries have still to be made and I am not yet in any position to present a final report on the society's affairs generally. In particular owing to the omissions in the society's books I would not be able to take all the society's affairs much beyond some time in 1957 and certainly not up to date. Nor could I comment on the society's annual statement of accounts for the year 1957 which has not yet been prepared.
3. The importance of my seeing this statement before venturing upon any final report can be readily appreciated from what I shall say in this report regarding the statement published for 1956. It is my intention, therefore, to wait until I have seen this statement, provided it is not delayed too long, before making a final report. I understand that it may be ready in July. It should, of course, have been submitted to the Registrar of Building Societies by the 31st March of this year. Some of its lateness may well be attributable to my having used the society's books between the 17th March and the end of April and also the auditor's unfortunate illness for some weeks thereafter. When, however, all these factors are taken into consideration I cannot help but come to the conclusion that it could have been completed by now, had the society's secretary, who is in de facto control of the society, been prepared to deal with the matter with greater despatch.
4. There are, however, two matters relating to the society's affairs, mentioned in the statutory declarations, which are of more than ordinary importance. They are the possibility that the society has no properly constituted Board of Directors and the possible insolvency of the society's annual statement of accounts for 1956. As my initial enquiries enabled me to discover facts relevant to these matters which, if correct, might be of serious consequence to certain individuals as well as to the functioning of the society, I thought it



proper to bring my enquiries into these matters to an end without reference to the necessarily more protracted enquiries into the affairs of the society generally. Accordingly, I took evidence on oath under my powers as inspector on the 8th and 20th May at 17, North Audley Street, London, W.1. The names of the persons who gave evidence and the names of counsel and solicitors representing them at the hearing are set out in Appendix C hereto. This evidence enabled me largely to confirm the facts I had previously discovered and to arrive at two definite conclusions. The first conclusion is that the society has not a Board of Directors constituted in accordance with its rules. The second is that the society's secretary and managing director, Mr. G. Carlton, has wilfully deceived its members by falsely showing in the statement of accounts for 1956, which he had prepared and published, that the society had made a profit of 18s.6d. instead of, as is the fact, a loss in excess of £3,000. This interim report is limited to a consideration of these two matters.

DIRECTORS

5. The Blackpool Building Society was registered in 1937 with its chief office at Blackpool. At the end of 1945 its assets amounted to some £40,000. In the following years there occurred a sharp increase in its assets and at the end of 1950 they amounted to just over £300,000. The activities of the society then came to the notice of the Registrar and in January, 1951, an Order was made against it under section 11 of the Prevention of Fraud (Investments) Act, 1939, forbidding the society to make any invitation to invest moneys in it. Since that date the assets of the society have slowly decreased, though money has still found its way into the society, and they now amount to a sum in the region of £250,000. The society has some 200 shareholders, 100 depositors and 90 mortgages. Its secretary is Mr. G. Carlton who has held that office since September, 1953, and the office of Managing Director since May, 1954. The society's chief office is now at 30-31 Park Lane, London, W.1.

6. The rules of the society which relate to its directors provide as follows:-

- Rule 51.* "The Board of Directors shall consist of not less than two or more than ten in number, who, together with the Managing Director and Secretary, shall be the Officers of the Society."
- Rule 53.* "The qualification for election to the office of Director shall be:-
- (a) That he be a Member of the Society to whose credit in respect of unadvanced shares, there stands in the books of the Society the sum of not less than Thirty pounds.
 - (b) That the candidate, save in the case of retiring Directors, shall have been nominated in writing by at least twenty other Members and that the said nomination shall have been left at the Chief Office of the Society directed to the Secretary not less than seven clear days prior to the Annual General Meeting at which the candidate seeks election"
- Rule 54.* "If the number of candidates shall not exceed the number of vacancies, the candidates shall be declared elected, and if there are further vacancies, any duly qualified Members who are present at the meeting may be appointed or the meeting may determine that the vacancies shall be filled by the Directors."
- Rule 57.* "Should any vacancy occur on the Board of Directors during the currency of any year, the Directors shall have power to co-opt another Member of the Society holding the necessary qualification in respect of shares to fill the vacancy and the said Director shall hold office until the next Annual General Meeting and retire in addition to the Directors retiring in the normal course subject to re-election."

Rule 51. "The Directors of the Society shall appoint, remove and fix the remuneration of the Managing Director and Secretary and any other officers (other than Directors), officials and servants of the Society as they may think fit and, for this purpose, shall have authority to enter into any necessary contract on behalf of the Society in such form as they may think fit."

7. According to the minutes of meetings of the Directors and the Secretary's contention the present Directors are Mr. I. G. Thorpe, Miss V. M. Holley and Mr. G. Carlton. The facts which I propose now to consider lead me, however, to a different conclusion.

8. Mr. Thorpe was elected for the first time to the Board of Directors at the annual general meeting of the society held on the 30th March, 1957. For my present purpose I am going to assume that this meeting was a properly constituted meeting of the society. According to his own evidence and that of the minutes of the meeting he did not however have the proper qualification for election to that office which under rule 53(b) is a nomination in writing by at least twenty other members of the society. He was not therefore validly elected at that meeting. Subsequently, a special general meeting of the society was called for the 29th July, 1957, and at this meeting Mr. Thorpe's election at the annual general meeting to the office of Director was confirmed. For reasons which I will presently point out, this meeting was not a properly constituted meeting of the society and in my view had no power to do anything. Mr. Thorpe is therefore not a member of the Board of Directors.

9. Miss Holley's membership of the Board of Directors allegedly originates from her co-option under rule 57 by a meeting of the Board held on the 4th May, 1957. Present at this meeting, apart from Miss Holley who was then of course not a member of the Board, were Mr. Carlton and Mr. Thorpe. As Mr. Thorpe was also not a member and as rule 56 requires a quorum of at least two directors to be present at any meeting, the purported meeting was no meeting at all and was without power to act. But even if this meeting had power to act I do not think it could have co-opted anyone to the Board because there was no vacancy to which anyone could be co-opted. The argument that a vacancy had occurred by the purported disqualification of a Mr. Hughes from being a member of the Board is without substance as I shall show presently. For these reasons it appears to me that Miss Holley is not a member of the Board. The fact that her purported appointment was confirmed at the special general meeting held on the 29th July, 1957, already referred to adds nothing to her case. Such a meeting could only be called under the rules of the society by the Board of Directors. The Board which called the meeting purported to consist of Miss Holley, Mr. Thorpe and Mr. Carlton, at least two of whom were not members of it. The absence of a quorum therefore prevented that meeting from doing anything effective.

10. What Mr. Carlton's precise position is in the society is rather more difficult to determine, largely because the rules of the society are ambiguous in at least one relevant respect. He is, however, without doubt its secretary and also its "Managing Director". He was appointed to the former office by a properly constituted meeting held on the 4th September, 1953. At a meeting of the directors of the society held on the 11th May, 1954, at which Mr. E. H. H. Dawkins and Mr. C. S. Brown, two persons who were then directors, were present he was appointed under rule 61 to the office of "Managing Director". There being no evidence that he has since been removed from that office or from that of secretary it appears to me that he must still hold them both. According to the minutes of the Directors' meeting just referred to Mr. Carlton was also co-opted to the Board of Directors under rule 57. This rule as I have already had reason to point out provides only for co-option to the Board where a vacancy occurs on the Board during the currency of any year. I found no evidence that there was such a vacancy at the time and I do not think that Mr. Carlton was therefore properly co-opted. Nor was Mr. Carlton subsequently co-opted to the Board under rule 57, or properly elected to the Board under rule 56, notwithstanding that the minutes of the society's annual general meeting held on the 30th March, 1957, state that at that meeting he retired "by rotation" under rule 52 and was re-elected. Quite obviously if he was never on the Board he could not retire by rotation. If he did not retire by rotation he could not be a retiring Director and would therefore need to be qualified in

accordance with rule 53(b), that is to say, to have been nominated by at least 20 members of the society which he clearly was not. Indeed this was the view taken on behalf of Mr. Carlton when I took evidence on this matter.

11. It was, however, argued on his behalf that as "Managing Director" under rule 51 he was ex officio a member of the Board. There is no provision in the society's rules which expressly provides for this and rule 51 seems to me to be against such a result in that it provides for the Board on the one hand "which shall consist of not less than two or more than ten members" and for the "Managing Director" on the other who together "shall be the officers of the society". I do not think therefore that Mr. Carlton is a member of the Board of Directors as provided for in rule 51. The argument on Mr. Carlton's behalf does not end there. The rules where they refer to the management generally of the society or to particular acts of management in most cases direct that these acts shall be undertaken not by the "Board of Directors" but by the "Directors". Thus rule 86 provides that the "Directors shall manage and control the business of the society" and that "not less than two Directors shall form a quorum at any meeting". The question arises, therefore, whether Mr. Carlton as "Managing Director" is one of these "Directors". Taking words in their ordinary meaning one would be inclined to answer this question in the affirmative. But doubt is thrown on such an answer by the fact that some rules use the two terms so indiscriminately as to force one to the view that when speaking of Directors they mean no more thereby than the Board of Directors as constituted by rule 51. Thus rule 68 provides for the holding of annual general meetings at such date, time and place as the "Directors" may fix and for the holding of a special general meeting whenever directed by the "Board". It seems unlikely that these two kinds of meetings are intended to be called by bodies differently composed. Conversely rule 56 provides for a "director" ceasing to hold office inter alia where removed by resolution of a special meeting of members. As rule 51 gives to the "Directors" the sole power of removing the "Managing Director", it seems to me that there is at least some ground for thinking that in rule 56 "Directors" means merely the "Board of Directors". I think that I have therefore said enough to show that there is some doubt as to whether the word "Directors" where used in the rules necessarily includes the "Managing Director". It is not for me as inspector to attempt to resolve that doubt. There are appropriate methods whereby this can be done by persons who have an interest in the matter. Suffice it to say that I think very little of immediate consequence depends on it and that for my present purposes it is sufficient to conclude that Mr. Carlton is not a member of the "Board of Directors" as constituted by rule 51.

12. I now turn to examine the position as a member of the Board of Directors of Mr. E. H. H. Dawkins, the date of whose resignation from the Board is, as will be seen in connection with the society's annual statement for 1956, the only point of relevance to this report. Mr. Dawkins is a chartered accountant who practises in Cheltenham. He was co-opted to the Board under rule 57 at a meeting of the Board held on the 4th September, 1953. There is no doubt in my mind that the Board in this case exercised its power of co-optation properly. On the 10th September, 1953, Mr. Dawkins was elected Chairman of the society. In accordance with rule 57 he retired from the Board at the annual general meeting in 1954 and was re-elected by that meeting. He again retired this time by rotation under rule 58 at the annual general meeting held in 1955 and was re-elected. He did not retire, nor was required to do so under the rules, at the annual general meeting in 1956 and continued to be a director. On the 1st October, 1956, Mr. Dawkins wrote to Mr. Carlton, the secretary, a letter the relevant part of which reads:-

"I have come to the definite conclusion that I am so busy with local business in this district that I am unable to come to London nearly as much as in the past and under these circumstances I must resign as a Director of the Blackpool Building Society.

I shall be grateful if you will give effect to this resignation at the earliest possible date".

Rule 56 provides that a director shall cease to hold office "on resignation in writing directed to the Secretary". As I see it, despite the touch of indefiniteness given to the resignation by the last paragraph of the letter,

Mr. Dawkins ceased to hold office once he had directed this letter to the secretary. The matter is, however, complicated by the fact that Mr. Carlton alleges that this letter of resignation - and he admitted that it was a letter of resignation - was verbally withdrawn by Mr. Dawkins at the end of October. This was denied by Mr. Dawkins. In support of this allegation Mr. Carlton says that Mr. Dawkins acted as a director by attending meetings of the directors of the society between October, 1956, and March, 1957, and received information both verbally and in writing about the society's affairs. The fact that Mr. Dawkins did receive information about the society after the letter of resignation must not in itself be interpreted as evidence of conduct confirming the withdrawal of his resignation, for Mr. Dawkins, in his professional capacity acts for Mr. Carlton in a matter wholly unconnected with the society and therefore had opportunity to receive such information - as indeed he did in a letter I have seen - when this other matter was under discussion. Nor am I disposed to believe that Mr. Dawkins attended meetings of the directors between October, 1956 and March, 1957, despite the fact that Mr. Carlton's evidence that he did is confirmed by the minutes of the directors' meetings. These minutes which were signed by Mr. Carlton show that Mr. Dawkins was apparently present at eight directors' meetings between October, 1956, and March, 1957, held at the society's London office. In the face of Mr. Dawkins' strenuous denials that he was present at any such meetings or even in London on so many occasions Mr. Carlton gave some ground. He explained that even if Mr. Dawkins was not present physically at all such meetings the minutes were not incorrect in showing him as present in so far as he had been informed of the meetings and had expressed his desire to be shown as present. An explanation of this kind has about it a certain air of light fantasy. It tempts one neither to make use of the minutes with any assurance of discovering the truth nor place any serious reliance on its author's capacity to distinguish fact from fiction. I do not, therefore, hesitate to accept Mr. Dawkins' evidence that he neither expressly nor impliedly withdrew his resignation of the 1st October, 1956. I shall refer later to certain events involving Mr. Dawkins which occurred in April, 1957. Here I need only say that they did not affect his resignation from the Board.

13. A claim to being a member of the Board is made by Mr. Hughes, one of the persons who made the statutory declarations at Appendix A and B. His position is unhappily somewhat complicated. He was co-opted to the Board under rule 57 at a Board meeting held on the 13th October, 1954, in place of a Mr. C. S. Brown who had retired from the Board. This Board meeting was attended by Mr. Carlton and Mr. Dawkins. Though Mr. Dawkins was undoubtedly a member of the Board at the time, Mr. Carlton was not. He was, however, "Managing Director" and if as such he was one of the "Directors" referred to in rule 57 who have power to co-opt and who under rule 58 could participate in forming a quorum, Mr. Hughes was undoubtedly properly co-opted to the Board. But I have already expressed my doubts as to whether Mr. Carlton was one of these "Directors". If, therefore, he was not, no quorum was present at the meeting in question and Mr. Hughes was not properly co-opted to the Board. His position is therefore subject at the outset to this doubt. I propose, however, to examine his position as though he had been properly co-opted.

14. At the annual general meeting immediately following his co-option, namely, that held in March, 1955, Mr. Hughes retired under rule 57 and was re-elected. At the annual general meeting in March, 1956, he retired by rotation under rule 58 and was again re-elected. At this time and indeed since the annual general meeting in 1955 the Board of Directors consisted only of Mr. Hughes (if indeed he was ever properly co-opted to the Board in the first place) and Mr. Dawkins. The latter, as I have already mentioned resigned from the Board on the 1st October, 1956, and thereafter Mr. Hughes was left its sole member. As such he would have no alternative but to retire by rotation under rule 58 at the next annual general meeting. But an annual general meeting requires under rule 68 to be held at such date, time and place as may be fixed by the "Directors". This word as used in the rules raises some doubts, as I have already mentioned, as to whether it means the "Board of Directors" as constituted by rule 57 or the Board and the "Managing Director" together. In the case of rule 66, however, "Directors" seems to me to mean "Board of Directors" a point I considered in connection with Mr. Carlton. As Mr. Hughes was left the only member of the Board after the 1st October, 1956, there was no Board in 1957 to call an annual general meeting since under rule 51 the Board must consist of at least two

members. The meeting which was purported to have been held on 30th March, 1957, was not therefore a properly called annual general meeting of the society, nor has any such meeting been called since, so that Mr. Hughes has not been able to retire from his office. That is the position still.

14. Mr. Hughes' position as a member or purported member of the Board is however subject to one further consideration. At about the time of the holding of the annual general meeting in 1957, the society's printed statement of accounts came into his hands. He was critical of certain items in that statement and expressed his criticisms to Mr. Carlton, though not otherwise publicly. It seems that as a result of these criticisms Mr. Carlton suggested to Mr. Hughes that he might like to retire from the Board on the ground of ill health, a suggestion which Mr. Hughes ignored. A month later at the beginning of May, 1957, Mr. Hughes received from Mr. Carlton by post the sum of £20.8s.0d. intended as repayment of Mr. Hughes' shares in the society. The object of this repayment was obvious for under rule 53(a) a director is required to hold as a qualification for that office shares to the value of at least £20 and under rule 56(d) he would cease to be a director if he ceased to hold the qualification shares. Under the rules the society is empowered only to repay to a member the paid up value of his shares if he gives notice of his intention to withdraw them but not otherwise and Mr. Hughes had given no such notice of withdrawal. In addition the directors which purported to authorise the repayment were also without any power to act generally, for at best they consisted only of Mr. Carlton. Subsequently, Mr. Hughes instructed his solicitors to write to the society pointing out that they had no authority to repay him, without his asking it to do so, any of his share capital invested in the society and that the amount purported to have been repaid was held by him on behalf of the society until he could find someone able to give him a valid receipt for it. A letter to this effect was written on the 9th May, 1957. Mr. Hughes in evidence said that he still holds the money in this way since there is and has been no one who in his view could give or have given him a proper discharge. Whatever the effect of this unauthorised repayment, which I do not need to examine, it has not in my view effected Mr. Hughes' position as either a member of the society or a member of its Board of Directors.

15. The results of my enquiries into this aspect of the society's affairs may now be briefly summed up. Firstly, no "Board of Directors" as provided for in rule 51 is in existence, or has been in existence since the 1st October, 1956, or possibly since the 13th October, 1956, when, by the retirement from the Board of Mr. C. S. Brown, Mr. Dawkins may have been left its only member. Secondly, the only person who has any present claim to being a member of the Board is Mr. H. W. Hughes and his claim is subject to his co-option to the Board under rule 57 on 13th October, 1956 having been effective. Thirdly, Mr. Carlton, though "Managing Director", is not a member of the Board of Directors as constituted by rule 51. It is not for me as inspector to examine the consequences of this position for the society so far as any of its past acts are concerned. This will have to be done elsewhere, if necessary. So far as the future is concerned, it will be for the members of the society in meeting to see that a properly constituted Board comes into existence in accordance with the society's rules. To this point I shall briefly revert at the end of my report.

16. The society's annual report and statement of accounts for 1956 was printed and published at the end of March, 1957. It is attached to this report at Appendix D but without its Schedules which are not relevant to this enquiry. It was presented to a meeting of members on the 30th March, 1957. The annual report has at its end the words "By Order of the Board, E. H. Haswell Dawkins, Chairman" which were intended to give the impression that Mr. Dawkins had signed it as Chairman. The statement of accounts were signed by Mr. Carlton as Secretary. The printing and publication of this report and annual statement was authorised by Mr. Carlton.

17. I have already examined Mr. Dawkins' position in relation to the society and have come to the conclusion that he resigned from the Board in October, 1956. It is also beyond doubt that he neither signed nor authorised the publication of the report in any capacity whatsoever. The first he saw of the report was when it appeared on his office desk on the 1st April, 1957, that is the day after the purported annual general meeting. Moreover, the Board which consisted at the time only of Mr. Hughes had never seen the report before its publication and certainly did not, even if it had been able to do so, order Mr. Dawkins to sign it. In this respect therefore the report contains a triple falsehood. Mr. Carlton who, as I have already said, authorised the publication of this report was not lost for an explanation. With a disregard for inconvenient facts which he showed not only on this occasion he told me in evidence that not only had Mr. Dawkins not resigned from the Board at the time, a point with which I have already dealt, but that the Board had agreed at some previous time that, provided the accounts were certified by the auditor, the Board would accept them and any report on the society's affairs without actually seeing either the accounts or the report. Such an important agreement one would expect to find referred to in the minutes of Directors' meetings but one looks for it in vain. Even Mr. Carlton could not say definitely that a record of it had ever been made and he produced no evidence other than his own to suggest its existence. I am therefore quite certain that no such agreement ever existed. Mr. Carlton also alleges that Mr. Hughes, the only member of the Board at the time, was informed of the contents of the report and statement of accounts before they were published. This is denied by Mr. Hughes. The date on which Mr. Hughes is alleged to have been so informed was the 13th March, 1957. As it appears from the auditor's evidence that no draft accounts were ever prepared until the 18th March I prefer to believe Mr. Hughes' denials. In fairness to Mr. Carlton I am, however, bound to say that this is the least serious aspect of this particular matter. With his capacity for disregarding inconvenient facts he may have quite genuinely convinced himself that Mr. Dawkins was still the society's chairman until such time as a new one was found. Moreover, it seems to me that no serious attempt was ever made by the Board to supervise Mr. Carlton which may well have led him to suppose that he could publish under the Board's authority anything he liked.

18. Mr. Dawkins' action when confronted with the annual report and statement for 1956 is not wholly without relevance. He did not, as one might well expect, immediately get in touch with Mr. Carlton whom he must have known was the author of the report. Instead he got in touch with Mr. Hughes and there then followed a number of consultations with the society's solicitors, Messrs. Beale and Company, at some of which Mr. Carlton was present. The purpose of these consultations was in a way remarkable. Mr. Dawkins wanted to avoid causing the society the damage which the repudiation of his signature on the directors' report might cause and therefore sought some way of ratifying it. The only obstacle to his ratification were two matters in the statement of the accounts to which he took objection. The first of these was an item for which credit was taken in the Revenue and Appropriation Account called "Excess Bank Interest and Charges Reclaimed". The amount of this item was £514 9s. 6d. I will deal in detail with this item in due course. Suffice it here to say that Mr. Dawkins had made some enquiries about it and considered that the society had no claim to the money. The other matter to which he took objection was that Mr. Carlton allegedly owed to the society a sum somewhat in excess of £2,500 which was shown in the balance sheet as an asset under the item

"Sundry Debtors Stocks and Prepaid Accounts - £5,698 12s. 10d." I shall also deal in more detail later with this alleged debt. Mr. Dawkins, who was not in possession of the true facts, took this balance sheet at its face value and thought it improper for the Managing Director to owe such a sum to the society. He therefore as a condition of the ratification of his signature to the report wanted Mr. Carlton in the course of the consultations with Messrs. Beale and Company to sign an undertaking that he would pay to the society both the amounts above mentioned. Mr. Carlton refused to do so and Mr. Dawkins did not ratify his signature. As a result Mr. Carlton had printed a new directors' report which is identical in terms with the one I have already mentioned but which now appears signed by himself as Chairman of the Society "By Order of the Board". I accept the fact that the persons who Mr. Carlton thought constituted the Board saw this report and ordered him to sign it as Chairman.

19. I must now consider a more serious aspect of this matter, namely the contents of the report and annual statement for which Mr. Carlton is undoubtedly responsible. The report in its fifth paragraph contains the unqualified statement that "the society has a claim against Contractors which has not been finalised". Such a statement is an excellent example of a half-truth, for although the society had a claim for an unascertained amount, probably in the region of £4,000 or more against certain contractors, it was in fact in the nature of a counter-claim to the contractors' claim against the society for some £3,000 for work done and materials supplied. Mr. Carlton's explanation for omitting this relevant piece of information was to the effect that the report was for the year 1956 and that the contractors' claim was not made until sometime early in 1957. The speciousness of such an explanation does not deserve further examination, even if Mr. Carlton were correct as to the date on which the contractors first made their claim. Unfortunately he is not. The first occasion on which the contractors asked for payment and at the same time threatened proceedings was by letter dated the 23rd November, 1956. The society acknowledged this letter on the 26th November and on the 27th December, 1956, the society's solicitors informed the contractors that there was "likely to be a substantial counter-claim" by the society. By suppressing the fact of the contractors' claim it seems to me that Mr. Carlton was trying to create the impression that the society had possible assets not mentioned in the accounts whereas the fact was that there was likely to be some litigation contested by the contractors the outcome of which might, but was by no means certain, to end in gain for the society.

20. I have already in connection with the signature of the Directors' report referred to an item shown as income in the Revenue and Appropriation Account for 1956 and called "Excess Bank Interest and Charges Reclaimed". This item amounts to £514 9s. 6d. By showing it in this manner it is intended to indicate that the amount in question has either been paid to the society or is owed to the society. The truth is, however, that it has neither been paid nor is owed. It is in fact a fictitious item inserted by Mr. Carlton with the intention as I will show later of concealing a loss for the year in question.

21. The facts relating to this item are relatively simple. The society had for some years an overdraft with Messrs. Barclays Bank at Blackpool which at the end of 1956 amounted to some £17,500. The bank wanted the repayment of this overdraft and had in the middle of 1956 appointed a receiver in respect of the society's London premises, which had been charged as security for the overdraft. Mr. Carlton for his part appeared anxious to repay the overdraft, if only to avoid the unpleasant consequences of a possible realisation of the security, and had at the beginning of 1957 made the necessary arrangements with another Bank to enable him to do so. The question of the amount of the society's debt to the Bank was however in question because Mr. Carlton alleged that the Bank could charge the society as interest on the overdraft only $\frac{1}{2}$ per cent. above Bank Rate and no commission on the operation of the account, whereas the Bank in fact was charging the society 1 per cent. above Bank Rate and commission. In the course of correspondence between the society's solicitors, Messrs. Beale and Company, and the

Bank's solicitors, Messrs. Blank Alexander and Company of Manchester, about this overdraft the question of the amount of interest and commission charges payable on the overdraft was raised by Messrs. Beale and Company. In a letter of the 30th January, 1957, the Bank's solicitors wrote to the society's solicitors that they were not disposed to argue about the interest payable on the overdraft which was 1 per cent. above Bank Rate and that the payment of such interest constituted one of the terms upon which overdraft facilities were offered and accepted. They also said that commission charges were payable. Messrs. Beale and Company did not take up the matter any further for reasons which seem to be obvious. Mr. Carlton discharged the society's liability to the Bank at the beginning of February, including the interest and commission charges which they claimed, but did so for his part without prejudice to the society's right to claim back any money not due. When in March 1957 the society's accounts came to be made up the society's auditor, Mr. Watson, a chartered accountant of Messrs. Carter and Watson, 33 Queen Street, Blackpool, who also prepared the society's accounts was told by Mr. Carlton in circumstances to which I shall refer later to show as income in the Revenue and Appropriation Account an amount of £514 9s. 6d. which Messrs. Barclays Bank owed to the society. This amount, Mr. Carlton said, represented the difference between the interest and charges actually paid to the Bank in February, 1957, and the amount which Mr. Carlton alleged the society were bound to pay, namely, $\frac{1}{2}$ per cent. above Bank Rate and no commission charges. Mr. Watson took Mr. Carlton's word that the Bank owed this amount to the society and included it in the account as instructed. Mr. Carlton admits that the amount represents and is supposed to represent this difference and that he instructed Mr. Watson to show it as income. He says, however, that Mr. Watson calculated the amount from data which he, Mr. Carlton, gave him.

22. I asked Mr. Carlton to produce to me evidence which might support his contention that the interest payable on the overdraft was $\frac{1}{2}$ per cent. above Bank Rate and that no commission charges were payable and he was only able to refer me to alleged verbal arrangements between himself and officials of the Bank. On the other hand, among the society's correspondence I have found a letter of the 5th October, 1953, in which the branch Manager of The Blackpool Branch of Barclays Bank, wrote to the Secretary of the society that "with regard to interest rates charged in the account the basis is 1% over Bank Rate minimum $\frac{1}{2}$ %". This was confirmed in a letter of the 9th October, 1953. I have not seen nor has Mr. Carlton been able to produce to me any satisfactory evidence that this rate of interest was reduced and I am left in no doubt that Mr. Carlton's claim both as to rate of interest and the absence of any liability for commission charges is without any justification in law. He was advised to this effect by the society's solicitors in April 1957 - admittedly after the accounts had been published - at their offices and in the hearing of both Mr. Hughes and Mr. Dawkins. Bearing in mind the fact that the society's solicitors did not take the matter any further after receiving Messrs. Blank Alexander and Company's letter of 30th January, 1957, to which I have referred above, it is not impossible to suppose that he had already been so advised by them in February before the accounts were prepared. Mr. Carlton's own belief in the society's claim to this or any other amount can, perhaps, best be judged by the fact that after he had paid in February, 1957 the amount asked for by the Bank, he did not take any action to demand payment of the society's claim until some ten months later, namely on the 3rd December, 1957. On that date he wrote to the local directors of Barclays Bank at Manchester a long letter claiming the interest and charges overpaid. They replied that they could not entertain any discussion in the matter and Mr. Carlton then wrote to say that he would take up the matter with the Bank's chairman. But he has done nothing since. It is difficult to believe that anyone who had any reason to think that the society's claim was justified would act in so casual a manner.

23. Amongst the assets of the society shown in the annual statement for 1936 there figures an item called "Sundry Debtors Stocks and Prepaid Accounts" amounting to £5,693 12s. 10d. Included in this amount is another amount of £2,512 13s. 6d. in respect of which Mr. Carlton is supposed to be a debtor. Now this so called debt, for in reality it was no debt at all, came to be shown as an asset of the society must now be examined. The version Mr. Watson, the society's auditor, gave me in evidence so far as it is relevant is that on the 18th March, 1937, at the society's office in Blackpool he showed Mr. Carlton draft accounts of the society for 1936 which he had prepared. The Revenue and Appropriation Account of these draft accounts showed, after paying or providing for full interest and dividend on deposit and shares for the year, a loss amounting to some £3,000. From what I have seen of the society's accounts I am quite certain that this represented the unfortunate facts. Mr. Carlton, however told Mr. Watson that he did not want to show a loss on the society's business for the year. In order to avoid showing a loss where there is one it is, of course, necessary either to remove certain items from the debit side of the Revenue and Appropriation Account and thus to reduce the total amount debited or to add items to the credit side and thus increase the total amount credited. Mr. Carlton chose both these methods. I have already pointed out how credit has been taken for a sum of £514 9s. 6d. allegedly owed by Barclays Bank Limited but to which the society had no claim at all. But even with this added to the society's income the loss would still amount to some £2,500. Mr. Carlton therefore suggested to Mr. Watson that he would take responsibility, at least until the society could afford to pay them, for certain expenses which had been incurred by the society and which appeared in the draft Revenue and Appropriation Account. In detail these expenses were made up as set out below and had been debited to the society in its Ledger in their respective accounts:-

Wages and National Insurance	£ 306 17s. 6d.
Travelling Expenses	£1,796 7s. 0d.
Motor Car "	£ 331 4s. 0d.
Legal Expenses and Stamp Duties	£ 76 5s. 0d.
	<hr/> £2,512 13s. 6d.

I have not seen or heard anything to suggest that these expenses were not incurred - whether rightly or wrongly - by the society. They are also quite clearly, as Mr. Watson has said, Revenue items which were rightly shown in the Revenue and Appropriation Account.

24. What precisely was meant by Mr. Carlton's suggestion that he would take responsibility for the expenses I was unable to discover and I do not think that at the time Mr. Watson sufficiently analysed the matter to discover himself what Mr. Carlton's position was supposed to be. For on the one hand he had taken responsibility for the amount and on the other hand he was not in law to be an unconditional debtor for it. That this added up to nothing, perhaps, did not occur to Mr. Watson who took Mr. Carlton's all too ready assurances at their face value. In the result Mr. Watson was prepared to take this amount out of the Revenue and Appropriation Account and transfer it to the Balance Sheet as an asset. Mr. Watson told me that there was some difference of opinion between him and Mr. Carlton as to the asset under which it should be shown. Mr. Carlton wanted it shown as cash in hand and it was little to the point that this would not represent a fact, for in any case Mr. Carlton's whole object in this matter was to conceal facts. Mr. Watson insisted that it should be shown under sundry debtors, because Mr. Carlton had taken responsibility for it and was in Mr. Watson's estimation a debtor at any rate "until the society could afford to pay" this amount. I accept that it was with great reluctance that Mr. Carlton eventually agreed that he should be shown as a debtor but once he had insisted on not showing a loss and the auditor had refused to show the amount in question as cash in hand, he had little alternative but to allow himself to be shown as a debtor for it. Accordingly an account was opened in the society's Ledger in Mr. Carlton's name and the specific items I have referred to above, amounting to £2,512 13s. 6d., were transferred to that account. The draft Revenue and Appropriation Account was also altered by deleting this amount as expenditure and showing it in the balance sheet as an asset under the heading "Sundry Debtors Stocks and Prepaid Accounts". The draft accounts now showed a small

profit of 18s. 6d. These accounts were accepted by Mr. Carlton, signed by him and published with his authority. One copy signed by him was submitted to the Registrar on the form prescribed for that purpose. Subsequently, probably in April 1957, after the consultation with Messrs. Beale and Company to which I have already referred, Mr. Carlton instructed Mr. Watson to make an entry in the society's London Cash Book showing on the one hand that the amount had been repaid to the society and on the other that the society had paid the identical sum to Mr. Carlton. This entry was made and dated March 1957. With it the debt was supposed to be extinguished and the liability for the expenditure back where indeed it always was, namely, with the society.

25. Mr. Carlton's account of this matter is wholly different. He tells me that he never saw any draft accounts for 1956, that no accounts for that year submitted to him showed a loss and that he did not know he was included amongst sundry debtors for any amount until the consultations with Messrs. Beale and Company after the publication of the accounts. He then instructed Mr. Watson to put the matter right so that the books would no longer show him as a debtor. In other words I am asked to believe that the auditor on his own initiative made Mr. Carlton a debtor for the purposes of the 1956 accounts. To do this is quite beyond me. Having had the opportunity of hearing Mr. Watson give his evidence and having seen his contemporaneous notes of the adjustments he had been instructed to make to the draft accounts I have no hesitation whatsoever in rejecting Mr. Carlton's version of the relevant events and accepting that of Mr. Watson. I am forced to conclude therefore that Mr. Carlton was intent upon hiding the truth about the society's serious financial position in 1956 from its members, for which purpose he made use of two devices which were without the slightest justification. In the result he was able to show a small profit of 18s. 6d. for the year, instead of a loss in excess of £3,000.

26. I have already stated that in my view the loss which Mr. Watson's draft accounts showed represented the unfortunate facts. The exact amount of the loss in the account if the two items I have considered at length had been properly treated would have been £3,026 4s. 6d. The society's Ledger shows that the society has been accustomed to capitalise certain items of expenditure which one might normally expect to find in the Revenue and Appropriation Account. They were capitalised by being added to the book value of the society's premises in Blackpool, Manchester and London. I do not wish at this stage to comment on the propriety of this procedure, or upon whether any individual items were rightly so capitalised. Only when I have completed all my enquiries can I fairly do so. I refer to this matter here merely to anticipate any possible argument that the loss of £3,000 could have been reduced by capitalising in the way mentioned all or some of the items of expenditure making up the amount of £3,512 13s. 6d. Even if this expenditure had in fact added to the actual capital value of the society's premises, which I doubt, it would seem to me that it would be a highly questionable procedure to increase their book value as shown in the annual statement for 1956, or for that matter to be shown in the annual statement for 1957, as from the advice I have had from the District Valuer it appears that the book value of these premises is at present over-estimated. I shall deal in greater detail with how the book values of these premises have been made up in my final report.

27. It is impossible for me to leave this matter without referring to the position of the society's auditor in this matter. He had been the auditor of the society for some years and carried on his practice from the same address as that at which the society had its Blackpool offices. He was also responsible for drawing up the society's accounts and closing the accounts annually in the Ledger. It is quite obvious that he was in a very difficult position. At the beginning of 1957 when the society's accounts were to be drawn up its books were far from complete and its London Cash Book, which appears always to have been jealously guarded by Mr. Carlton, had not a single entry in it for 1956. Indeed something of the difficulty of his position can be understood from the fact that he was told early in 1957 by Mr. Thorpe, the clerk who wrote up the society's books, that Mr. Carlton did not want to have his London Cash Book entered up until accounts had been prepared. Indeed such a suggestion would seem to be quite typical of Mr. Carlton who would not think anything peculiar in it. And it seems to me also quite typical of the position in which

Mr. Watson was often placed. That this sort of thing did not warn him to take extreme care with the accounts and to report on any matter in the accounts he had to draw up which was not fully evidenced I find difficult to understand. He accepted Mr. Carlton's word that the society was owed £514 8s. 6d. by Barclays Bank without obtaining any supporting evidence whatsoever. He was also prepared on Mr. Carlton's word that he would take responsibility for the sum of £2,512 13s. 6d. to show him as a debtor for that amount. Even if as accountant of the society he was bound to draw up the accounts as instructed, it would nevertheless seem to me to have been more consistent with his duties as auditor to have made some special report on these two matters and thus warn the unwary members that reality and appearances were not necessarily identical. The members of the society were entitled to expect no less from him and in the result he has perhaps unwittingly helped to mislead the members as to the true position of the society. It should be added that Mr. Watson resigned from being auditor of the society in 1957 having, he says, lost faith in Mr. Carlton as a result of being instructed to make the entry in the London Cash Book which in effect cancelled Mr. Carlton's debt.

28. In concluding this interim report I must make some more general comments on the conduct of the society's affairs which arise out of the matters I have considered above. At the time when the accounts for 1956 were in preparation Mr. Carlton alone was in factual control of the society. He is not a person who brooks a great deal of interference from any one and it appears to me that the influence of the other directors on the society's affairs, such as they were, was never very significant. Subject to the doubts I have already expressed as to Mr. Hughes' original co-option to the Board under rule 57, he has been the only member of the Board since the end of 1956. It does not seem that he ever exercised, or intended to exercise any effective control over Mr. Carlton. The accounts for 1956 were prepared and published without his knowledge or agreement and it is significant that he did not insist on seeing them before their publication. He left this matter, as may always have been the case, to Mr. Carlton. When eventually he saw them he was not prepared to voice his criticisms at the purported annual general meeting, the propriety of which he did not impugn, held on the 30th March, 1956, on the ground that as a layman he was not prepared to attack the certificate of a professional auditor. Though it is possible to appreciate such deference, it is difficult to reconcile it with the plain duty of a director, let alone his duty to inform the meeting that he had never approved them. But I think that even if he had attempted it he would never have been allowed by Mr. Carlton to play any great part in the society's affairs because sooner or later, as indeed was the case after May, 1957, he would have been excluded from them. In fairness to him, it must also be said that he was one of the persons who made the statutory declaration which initiated this inspection.

29. Of Mr. Carlton I need say very little. I have purposely not attempted in this interim report to comment on the justifiability of any of the society's expenditure, some of which, as I have tried to show, was fictitiously debited to Mr. Carlton. Nor do I wish here to comment upon Mr. Carlton's responsibility for any such expenditure. These matters will receive detailed attention in my final report. It appears to me however quite clear from what was done in relation to the society's accounts for 1956 and in a lesser degree in relation to the repayment of Mr. Hughes' shares that Mr. Carlton is not a person who ought to be left in any sort of control of a building society. His standards are not the standards the members or the public are entitled to expect from the managing director of a building society. Since the end of 1953 his hand can be readily detected in the affairs of the society. At present it is a fact that his control of the society's affairs is absolute, and I think it my duty to say that that fact is most unfortunate.

30. It is not within my competence to make any recommendations as to what ought to be done with regard to any facts on which I have reported. On the other hand, knowing that it will undoubtedly be desirable, if not essential, for the members of the society to hold a properly constituted meeting in the near future for the purpose of considering these facts and electing a proper Board, I think I would be doing less than my duty if I were not to draw their attention to the courses which they can or cannot take to call such meeting. Under rule 6B an

Annual General Meeting of the society is to be held annually at such date, time and place as the "Directors" may fix. Similarly a Special Meeting is to be held "whenever directed by the Board". As the society does not appear to have a properly constituted Board it may be impossible to call either an annual or special general meeting. Under rule 71 the "Directors" are also required to call a special meeting on the written request of 20 members. A special meeting of this kind may also not be able to be called because of the absence of a properly constituted Board. However under section 5(5) of the Building Societies Act, 1894, the Registrar is empowered to call a special meeting of the society if evidence is furnished by statutory declaration of not less than 3 members of facts which in his opinion call for recourse to the judgment of a meeting of the members. Such a meeting has all the powers of a meeting called according to the rules of the society and has further power to appoint its own chairman. Such a meeting could therefore consider the society's affairs, its statements of accounts, elect directors and remove any directors in office. And it may well be that in the present circumstances this is the only practical way of calling a meeting.

A. VOLLMAR

23rd June, 1958

17, North Audley Street,
London, W.1.

THE BLACKPOOL BUILDING SOCIETY.

STATUTORY DECLARATION by Members of the Society for consideration by the Registrar under The Building Societies Act 1894, Section 5, sub-sec.(5) (c).

WE, JOHN KAY of 326 Queen's Promenade Blackpool in the County of Lancaster Boardinghouse Keeper, DORIS KAY of the same address wife of the said John Kay, NOAH BRAY of 29 Tyldesley Road Blackpool aforesaid Boardinghouse-keeper, and HUBERT WILLIAM HUGHES of 4 Essex Villas Kensington W.8 in the County of London Company Director, four members of the above-mentioned Society, do solemnly and sincerely declare as follows:-

1. We all are bona fide members of the Society and we are not actuated by malicious motives in making this Declaration.
2. We are each holders of Shares in the Society.
3. That we each received Notice of the Annual General Meeting of the Society to be held on the 30th March 1957 at the offices of the Society in 30-31 Park Lane W.1 in the County of London and that such Notice was accompanied by a copy of the Annual Report and Statement of Accounts for the year 1956 which was laid before such meeting; that the Report was signed "E.H. Haswell Dawkins Chairman" and stated to be signed "By Order of the Board"; That on such Annual Account and Statement the Directors were stated to be "Mr. E.H. Haswell Dawkins A.C.A. (Chairman) Mr. Hubert W. Hughes F.S.S. Mr. George Carlton (Managing Director)" and "Mr. George Carlton (Consultant)" was stated to be the Secretary. We have no knowledge of the meaning of the word "(Consultant)" used in this connection.
4. That we are informed and verily believe that the said E.H. Haswell Dawkins has since repudiated his alleged signature to the said Report and Statement of Accounts and stated that he was abroad at the time and previously to going abroad namely in October 1956 had by notice in writing resigned his position as Director of the Society. That we have since seen, purporting to be also for the year 1956, an Annual Account and Statement whereon the Directors are stated to be, as at 31st December 1956 "George Carlton I.G. Thorpe V.M. Holley". There are other differences between the two documents notably that the last-named document purports to be signed "By Order of the Board, George Carlton, Chairman."
5. That we are not satisfied that provision has been made in such Accounts for Depreciation of Assets, for possible loss in realization of mortgage securities, and for outstanding accounts owing by the Society. There are further alarming increases in the amount of "Sundry Debtors" and we are not satisfied they are sufficiently protected by securities: That the items in the Revenue - - Account shewn as Income comprise Fines 2781-8-8

and Excess Bank Charges Reclaimed £514-9-6 which sums we are advised and believe have not been in fact received and are not legally recoverable. The deletion of these hypothetical sums would leave the Account in heavy deficit.

6. That we have heard rumours and read reports in the newspapers of legal actions indicating that the Society is harsh and usurious in its transactions with borrowers, and these are getting the Society into bad repute; there are also rumours that the Society is not financially sound and solvent and that it is covering up its true position by Balance Sheets which contain many irregularities inaccuracies and omissions, and for the reasons aforesaid we believe that it is in the interests of justice that an independent investigation should be held without delay to test the truth or falsity of the rumours and charges.

AND I the said Hubert William Hughes for myself say:-

7. I crave leave to refer to a Declaration made by me on the 11th day of December last and to reassert the statements therein at length set out as fully as if the same were herein contained and declared.

8. AND we all say that we make this Declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1835.

Declared by the said)	
John Kay Doris Kay)	JOHN KAY
and Noah Bray at - -)	DORIS KAY
Blackpool in the County)	
of Lancaster this 13th)	NOAH BRAY
day of January 1958,)	
Before me)	

WALTER ALKER

A Commissioner for Oaths.

Declared by the said)	
Hubert William Hughes)	
at Kensington)	
in the County of London)	HUBERT WILLIAM HUGHES
this 14th day of)	
January 1958.)	

Before me,

L. A. DARKE

A Commissioner for Oaths.

THE BLACKPOOL BUILDING SOCIETY.

STATUTORY DECLARATION by Three Members of the Society for consideration by the Registrar under The Building Societies Act 1894 Section 5 Sub-section 5(c).

We, HUBERT WILLIAM HUGHES of 4 Essex Villas Phillimore Gardens Kensington W.8, in the County of London, Company Director (hereinafter called "Mr. Hughes")

ARTHUR HEATON of 9, Kensington Road Blackpool in the County of Lancaster Boardinghouse Proprietor and JOHN KAY of 326 Queen's Promenade Blackpool aforesaid Boardinghouse Proprietor

three members of the above named Society, do solemnly and sincerely declare as follows:-

1. We all are bona fide members of the Society and we are not actuated by malicious motives in making this Declaration.
2. Mr. Hughes says that he holds three paid-up unadvanced shares of £10 each of the Society and is a Director of the Society. That he received no Notice convening a meeting of the Board of Directors to consider and approve the Annual Report and Statement of Accounts of the Society for the year ended 31st December 1956, to be laid before the Annual General Meeting and did not attend at any Board Meeting for that purpose and did not see the said Report and Accounts until he received a print of them with Notice of the Annual General Meeting, to be held on 30th March 1957 at 30-31 Park Lane London, W.1.
3. Mr. Hughes further says that he received the said Notice and Accounts on Monday the 25th March and noticed the Report was signed "E. H. Haswell Dawkins, Chairman of Directors, by Order of the Board" and the Auditors' Certificate appended to the said Accounts had been signed by "Carter and Wateon, Chartered Accountants Blackpool" who had respectively been the Chairman and the Auditors of the Society during the whole period while Mr. Hughes was a member. On receipt of the Notice and Accounts Mr. Hughes had not time to consider them fully owing to illness, domestic matters, and a journey out of town; and in fact he did not apprehend any need for close inspection, relying on the signature of the Chairman of Directors, who is a Chartered Accountant practising at Cheltenham, and the Certificate of the Auditors who are also Chartered Accountants practising for many years at Blackpool. Nevertheless he wrote on the 28th March to the Secretary of the Society who is also the general Manager and is styled "Managing Director", criticising certain items in the Accounts and Report, which struck him on a first perusal of them and without comparing the Accounts with those for previous years.

That on Saturday the 30th March he went to the offices of the Society in Park Lane before the time appointed for the meeting and saw there the Secretary Mr. Carlton, who told him that his criticisms were unfounded and incorrect. Mr. Hughes said that if he remained for the meeting he would have to mention the matters of his criticism, and that as he was unprepared as a "layman" to attack the professional Certificates of the Auditors and the Chairman it would be better he should not remain if there were a quorum present to conduct the business; he did not wish to cause any unpleasant argument and embarrassment which might not do the Society any good, and which might prove to be ill-founded.

He therefore did not stay for the meeting and has no direct and personal knowledge of what took place thereat; but the Agenda in the Notice was (1) presentation of the Annual Accounts Balance Sheet, and Report for 1956 (2) to "re-elect" Directors (3) to appoint Auditors (4) any other business in accordance with the Rules.

That on the 31st March he wrote to Mr. Dawkins with regard to the Accounts and Report and the items in them which he had queried to the Secretary and could not understand; and that he received in reply a letter dated 1st April from Mr. Dawkins stating that he had returned from abroad only on the 31st March and had not until such return seen the Notice calling the Annual General Meeting, or the Accounts, or the Report which was printed as signed by him.

That he received a letter dated 1st April from Mr. Carlton in reply to his letter of the 28th March and denying and repudiating the criticisms made therein and which letter ended with a suggestion that Mr. Hughes might wish on the ground of ill-health to be relieved of the trouble of being a Director. That his suspicions being aroused he then examined the accounts for 1956 carefully and compared them with the Accounts for the three previous years, and discovered therein several more items and points which seemed unsatisfactory and which caused him uneasiness, and that he then made certain inquiries and received certain information, and heard certain allegations which are not susceptible of proof until the books of account of the Society have been inspected and examined - which said books are kept at the Blackpool office of the Society and have never been produced for the inspection of this declarant although such production has been requested, in particular by letter in writing to the Auditors.

That he inquired of Mr. Dawkins as Chairman of Directors if there were any truth in a rumour that a Rolle-Royce motorcar which Mr. Carlton registered, used and drove as his own personal property, was in fact paid for out of the Society's funds, but

he was assured by Mr. Dawkins this was not so and that no auditor would pass such a payment; that he has later learned the car was in fact paid for out of the Society's funds and that Mr. Dawkins and Mr. Carlton both now admit this fact.

That he also enquired of Mr. Dawkins if Bank commission reclaimed and certain fines, which appeared in the Accounts as Income had in fact been received or were they merely hopeful expectations and that Mr. Dawkins assured him the Accounts were right and such as he or any other Chartered Accountant could properly sign, and that Mr. Hughes need not worry about that. That he learned from the Solicitors of the Society that in fact they had advised the Society through its secretary that in their opinion and in the opinion of Counsel these sums appearing in the Accounts as Income were not in law recoverable.

That he further learned from the said Solicitors that in place of the £4,000, debited to Capital Reserve Account being (or any part of it being) recoverable from the Builders as suggested in the Report, the Builders were pressing for payment of a sum of nearly £3,000 as being still due.

That these items and points or some of them are set out hereafter and they were put to Mr. Carlton at various meetings between Mr. Hughes, Mr. Dawkins, and Mr. Carlton at the office of the Society's Solicitors, Messrs. Beale & Co., in London and were not then satisfactorily explained, rectified or otherwise dealt with.

That during the course of these meetings (one of which Mr. Dawkins and Mr. Carlton postponed without prior consultation with this declarant). Mr. Dawkins went to Blackpool to see and talk with Mr. Carlton and on his return stated to Mr. Hughes that of the large increase in the amount of "Sundry Debtors" some £2,500 was admittedly owing by Mr. Carlton, that Mr. Carlton had the money to repay this, and would bring it to London the following day. The money was not so brought, but the Auditor stated a bookkeeping entry had been made, crediting Mr. Carlton with the sum as cash, and debiting a like sum as paid to him for "travelling expenses". That after this failure to keep a promise, Mr. Carlton informed the solicitors they needed no further instructions as to a Contract to sell certain mortgaged property held by the Society, as the matter had been completed and he had got the money. It was "a wonderful sale" for £2,500 cash, leaving £4,000 balance on mortgage. That the Directors were never consulted and gave no instructions as to the sale and never authorised a Contract, believing the property to be worth more than the sum mentioned. This declarant knows not if the money has been paid to the Society's account, that subsequent to these events Mr. Dawkins decided to refuse to adopt his signature to the Report and relied on a letter of

resignation he had sent to the secretary on some date in September or October 1956.

That following such decision this Declarant was (as he was and is advised) left as the sole Director of the Society. The Society's Rules prescribe that two Directors shall form a quorum at Board Meetings; it has therefore not been possible for Board meetings to be held or for the Directors to have any voice in the affairs of the Society. The Secretary continued to deal with the routine matters of his office, and it is suggested has unlawfully and without authority used the Seal of the Society to enable him to carry through transactions.

That he received on 6th May a registered envelope containing six £5 Bank Notes and a postal order for 7/2d with a letter dated 4th May and signed by Mr. Carlton as secretary of the Society, stating that this £30-7-2 was the repayment of the amount standing to his credit on his paid-up Share Account, including interest, and that his account was closed in the Books of the Society and that from 4th May 1957 his membership had ceased. That he had never applied to the Society or given any Notice to withdraw the amount to his credit under the Rules and on the 9th May his solicitors, F.J. Thairlwall & Co., wrote on his instructions to the Society pointing out this and that the purported repayment was unauthorised and ultra vires and that Mr. Hughes held the amount received on behalf of the Society and until he could find someone able to give to him a valid receipt for it. That his said solicitors received a letter in reply dated 14th May from Mr. Harold Smith of Blackpool purporting to have been written by Mr. Smith as Solicitor for the Society on Mr. Carlton's instructions, stating that the payment was within the Society's Rules, and a subsequent letter from him dated 17th May stating that the payment was made under No. 45(b) of the Rules of the Society, following a Resolution of the Board of Directors. That he has since been informed that at the Annual General Meeting on the 30th March a Mr. I. G. Thorpe an employee of the Society at its Blackpool office was (Mr. Carlton alleged) elected a Director and that on Saturday the 4th May a Directors Meeting is alleged to have been held in London of which Notice is alleged to have been sent to Mr. Hughes but has never been received by him, but at which Mr. Carlton and Mr. Thorpe attended, and purporting to be Directors of the Society "provisionally co-opted" a Miss Holley as a Director and passed

Resolutions for repayment of Mr. Hughes' shares; ratifying the prior repayment of the shareholdings of Mr. Dawkins and fifteen other members; recording Mr. Dawkins' resignation from being a Director; and confirming and ratifying Mr. Carlton's authority as Managing Director in respect of all acts performed by him on behalf of the Society as Managing Director or otherwise from 1953 onwards, and confirming his powers as Managing Director for the future. Mr. Hughes said solicitors having queried the election of Mr. Thorpe to be a Director and the validity of the alleged Meeting of Directors on 4th May, of which Mr. Hughes received no Notice, by a letter dated 21st May to Mr. Harold Smith they received a reply from Mr. Smith dated the 24th May stating that Mr. Thorpe's election was valid and was carried through under the item "any other business in accordance with the rules", and that the election of a Director in the place of one retiring was not special business (but not stating who the retiring Director was) & that the Meeting of 4th May was properly convened and regular and that notice of the Meeting was posted to Mr. Hughes and the posting could be verified. That Rule 10 of the Society authorises the issue of "unadvanced shares" and Rule 11 directs that these shall be (a) "paid-up" shares of £10 and (b) "Subscription Investing Shares" of £100 on which 10/- per month is to be paid; and Rule 43 provides that shares shall be cancelled (a) when fines on any "Investing Share" exceed the amount to the credit of the member (b) on payment to a member of the amount standing to his credit in respect of any Investing Share." That Mr. Carlton is the Manager and Secretary appointed by the Board of Directors under Rule 61 of the Society and as such has the courtesy title of "Managing Director" but is not thereby made a Director and a member of the Board. Rule 51 provides that the Board of Directors shall consist of not less than two who, "together with the Managing Director and Secretary" shall be the officers of the Society. That the Report and Accounts for 1956 show the Directors as being Mr. Dawkins (chairman), Mr. Hughes, and Mr. Carlton (Managing Director), and the Secretary Mr. Carlton (consultant) and discloses no vacancy in the Board of Directors, which could be filled by the election of Mr. Thorpe, even if that could properly be brought in under "Any other business". That Mr. Hughes on Thursday 25th July 1957 received a Notice of a Special General Meeting to be held on Monday the 29th July 1957 and that the purpose of the said meeting was stated in the said Notice "to consider confirm and ratify the following resolutions

1. That Mr. Hughes has ceased to hold office in accordance with Rule 45(b).
2. That Vera May Holley as a Director of the Society shall hold office until the next Annual General Meeting.

3. That Mr. Dawkins has ceased to hold office in accordance with Rule 45(b). and
4. That Ivor Gordon Thorpe as a Director in accordance with Rule 53 (a) shall hold such office until the next Annual General Meeting.

That Mr. Hughes attended the said Special General Meeting at which the following were present as well as Mr. Hughes himself:- Mr. George Carlton (who took the chair of his own initiative), Mr. Ivor Gordon Thorpe, Miss Vera May Holley (i.e. Mrs. Carlton in her maiden name) and two ordinary members Mr. Morrison and Mr. L. Jackson.

That Mr. Hughes objected to the irregular manner in which the Meeting had been called and the resolutions proposed and the absence of any information in the Notice as to the Real position with regard to the Board of Directors of the Society and the inaccurate and misleading Balance Sheet laid before the last Annual General Meeting and called on the Secretary Mr. Carlton to read to the Meeting the letter to this effect which Mr. Hughes had written to him, and though Mr. Carlton at first refused, Mr. Morrison and Mr. L. Jackson insisted that he should read the letter and he did so. He also read to the meeting a letter Mr. Hughes had written in similar terms to Mr. Thorpe and Miss Holley, informing them of his contact with the Police; Mr. Hughes said this letter was not to the meeting, but he had no objection to its being read. Mr. Hughes said he would take no part in the meeting, having made his objection, but as a matter of courtesy would remain and answer any questions they might wish to put to him.

That ultimately the following Resolutions were passed at the Meeting:-

1. That Hubert William Hughes shall resume his Directorship forthwith, and sit on the Board now as such.
2. That Vera May Holley as a Director of the Society shall hold such office until the next Annual General Meeting.
3. That Edwin Herbert Haswell Dawkins has ceased to hold office in accordance with Rule 45(b).
4. That Ivor Gordon Thorpe as a Director in accordance with Rule 53(a) shall hold such office until the next Annual General Meeting.

The Balance sheet produced was not identical with that at the Annual General Meeting that in the concluding stage of the last-mentioned Special General Meeting Mr. Morrison asked Mr. Hughes to agree to the Carrying-on of routine business by the Secretary and Mr. Hughes offered no objection but he declined to agree to confirm the Secretary's past actions (of which he had no knowledge) or to a change of solicitors from Messrs. Beals.

Nevertheless Messrs. Beale have had from Mr. Harold Smith, purporting to act on behalf of the Society, demand for certain papers and a copy of a Resolution alleged to have been passed at a Directors Meeting on the 29th July, terminating their instructions and appointing other Solicitors.

We all say that the items and matters in the Accounts which we consider to be unsatisfactory are:-

(a) That the Capital Reserve Account is debited with £4,000 for Reconstruction of Blackpool property, leaving a balance of £456.8.6. only therein, which does not seem a prudent and proper step; and that the Board of Directors have never (we are informed) authorised a "reconstruction of the Blackpool property" but were aware that repairs thereto were to be or were being done.

(b) The Report states that the Society has a claim against the Contractors in respect of the re-construction of the Blackpool property, whereas in fact the Contractors are claiming some £2,889 further for work done by them and have issued a Writ against the Society to recover such sum. These Contractors were discharged from the work, as a previous firm had been. It is not known if the work has yet been finished. The Contractors claim that they paid the Secretary of the Society certain sums unknown to the Society by way of Commission or bribe, for this and other work.

(c) The Accounts show no Mortgage losses Reserve and treat all mortgages as being of full "face value" which it is feared in some cases is not correct.

(d) The Balance Sheet shows Office Premises as of a value of £110,077 - - 5, whereas the previous figures were, for 1955 £109,042-16-6; for 1954 £105,459-18-0; and for 1953 £100,543-11-6; but no additional premises have been acquired, and no allowance is made for depreciation.

(e) It also shows furniture, machines, and equipment at a figure of £6,070-6-4 as against £5,739-9-11 for 1955; £4,205-18-8 for 1954; and £3,821-17-7 for 1953, no appreciable amount of furniture having been purchased, and there being no annual deduction or allowance for depreciation.

(f) It also shows Sundry Debtors, Stocks and Prepaid Accounts at the figure of £5,693-12-10, as against £1,784-2-4 for 1955, £1,497-13-11 for 1954; and £988-16-2 for 1953.

(g) The Revenue and Appropriation Account shows Rents etc from letting of office premises £2,323 as against £2,720,15.6 for 1955; £3,348.18.4 for 1954; and £3,972.6.10. for 1953. Each successive year the capital value of the properties is shown as increased but the income therefrom much decreased. For at least four years two floors at the London premises have remained unlet, though their letting value is approximately £1,000 a year each, and there have been many offers to take them at a proper rent.

(h) In the Revenue and Appropriation Account a figure of £781.8.8 for fines is shown as an item of Income receipts, but although these fines have been shown as an Income in previous accounts, it has emerged in recent legal proceedings taken by the Society in respect of a Mortgage security that a large amount or part of them is not legally enforceable, and therefore it is no longer proper to include them at such a figure. Also an amount of £514.9.6. is shown for Excess Bank Interest and Charges reclaimed, and as being an income receipt, but in fact this is only a claim, which is not admitted by the Bank upon which it is made, and is not presently receivable or likely to be received.

That the elimination of these two amounts from the Income would leave the Account unbalanced; there being now a credit balance in such account of only £2. 18. 8, this would turn into a loss of nearly £1300.

Also that the item Sundry Debtors, Stocks and Prepaid Accounts in the Balance Sheet includes a sum of £2,500 or thereabouts owing by the Secretary. As this is an unsecured loan, it is an unauthorised and highly imprudent investment. Presumably part of this sum was taken for the purchase of the Rolls-Royce car before-mentioned, for the purpose of journeys between Blackpool and London, but in such case the cost would, be much greater than railway fares. The car, it has been ascertained, is registered in Mr. Carlton's name as owner without any mention of the Society.

4. That we are all holders of shares in the Society.

5. And we all say that we have heard unpleasant rumours and have read reports in the Press suggesting that the Society is not strict in its financial dealings and is not acting fairly with its borrowers but in a harsh and unsurious manner tending to get the Society into bad repute with its shareholders, borrowers and investors alike.

6. That for the financial year ended 31st December last two different sets of balance sheets and accounts are in circulation causing feelings of doubt and insecurity. Two different sets of officers are shown as in office at the end of 1956.

7. That rumours of charges of forgery and of misappropriation coupled with the action of the Secretary in acting in all matters as if he were the proprietor of the Society and entitled to do what he pleased, have lent colour to these rumours and caused disquiet and uneasiness among those who are or might be shareholders or investors and have not advanced the interests of the Society.

8. From the investigations which we have made or caused to be made we are not satisfied with the financial stability of the Society and we fear it may be insolvent and that for these reasons the Secretary is acting improperly in paying-off or preferring certain shareholders or investors to the possible detriment of others.

9. We all say and each of us says that it seems most desirable to us that an inquiry should be made into the conduct and affairs of the Society to allay public suspicion and unrest.
10. And we make this Declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1835.

DECLARED by the said Hubert)
William Hughes at 18,)
Kensington High Street,)
Kensington, in the County of) HUBERT W. HUGHES
London this 11th day of)
December 1957)

Before me,

L. A. DARKE

A Commissioner for Oaths.

DECLARED by the said Arthur Heaton)
at Blackpool in the County of)
Lancaster this 9th day of December) ARTHUR HEATON
1957)

Before me,

WALTER ALKER

A Commissioner for Oaths.

DECLARED by the said John Kay)
at Blackpool in the County of)
Lancaster this 9th day of) JOHN KAY
December 1957)

Before me,

WALTER ALKER

A Commissioner for Oaths.

Names of Persons who gave evidence on oath
on the 8th and 20th May 1958 at
17, North Audley Street, London, W.1.

Mr. Ralph George Carlton,
462, Park West,
London, W.2.

Mr. Edwin Herbert Haswell Dawkins,
The Parks,
Newent,
Gloucestershire.

Mr. Hubert William Hughes,
4, Essex Villas,
Phillimore Gardens,
Kensington,
W.8.

Mr. Ivor Gordon Thorpe,
29, Hemingway,
St. Annes Road,
Blackpool.

Mr. Jack Watson,
33, Queen Street,
Blackpool.

Names of Counsel and Solicitors
representing the above witnesses:

For Mr. R. G. Carlton

Mr. David Hunter,

Mr. Peter Solomons,

- instructed by Messrs. Hamlin, Brown,
Veale and Twyford.

For Mr. H. W. Hughes

Mr. W. J. Shaw of Messrs. Lewis and Shaw.

For Mr. E. H. H. Dawkins

Mr. P. L. Moss of M. L. Moss and Son.

DIRECTORS' ANNUAL REPORT AND
STATEMENT OF ACCOUNTS FOR 1956
OF THE BLACKPOOL BUILDING SOCIETY

DIRECTORS' ANNUAL REPORT AND STATEMENT OF ACCOUNTS

The Directors are pleased to present the TWENTIETH Annual Report and Statement of Accounts for the Year ended the 31st December, 1956.

Alterations have been made in the presentation of the Accounts in consequence of the revision of the form of Building Societies' Account and Statement (A.R. II) prescribed by the Registrar of Building Societies and duly approved by Parliament.

Throughout the year Investors have received the benefit of higher Interest Rates, all TAX FREE, and paid on the usual half-yearly dates. The Directors thank all old Members and Depositors for having increased their Investments in the Society, and extend a cordial welcome to all new Members.

The Directors have pleasure in stating that during the next 12 Months a much larger income can be expected, partly from the parts of the Society's Office buildings which are not required at present for the Society's business, and partly from the increased interest rates payable on Advances; the present Accounts only include 10 Months income at the higher rates payable by Borrowers.

The Directors are continuing their progressive plans towards the fullest expansion of the business of the Society and re-construction of the Society's Office building at Blackpool should be completely finished very shortly; the Society has a claim against the Contractors which has not been finalised and £4,000 of this re-construction has been debited to Capital Reserve Account.

The Directors feel that 1956 was a difficult year due to the abnormal financial conditions throughout the country, which have been successfully surmounted, and the future business of the Society should greatly increase under more stable and normal financial and National conditions.

The Directors extend their grateful thanks to all Members and Official and Professional Men for their kind co-operation and loyal support during the past year, which has contributed so much to the Society's continued success, and we look forward with confidence to the future.

By Order of the Board,

E. H. HASWELL DAWKINS,

Chairman.

BLACKPOOL BUILDING SOCIETY

Abstract of Accounts

1. SHARES ACCOUNT

	£	s.	d.		£	s.	d.
Withdrawals, including Interest, Dividend and Bonus	22,834	2	6	Subscriptions	15,337	14	6
Due to Shareholders at end of year	211,689	17	8	Interest, Dividend and Bonus on Shares	6,803	3	2
				Due to Shareholders at beginning of year	212,183	0	6
Total	434,524	0	2	Total	434,524	0	2

2. DEPOSITS AND LOANS ACCOUNT

	£	s.	d.		£	s.	d.
Withdrawals, including Interest Due to Creditors for Deposits and Loans at end of year	2,775	14	1	Receipts from Depositors	2,565	18	3
	9,948	6	0	Interest on Deposits	282	3	2
Total	12,724	0	1	Due to Creditors for Deposits and Loans at beginning of year	9,835	18	8
Loans from Bank repaid, including Interest (or reduction in Overdrafts)	1,694	3	6	Total	12,724	0	1
Due to Bank on Loans and Overdrafts at end of year	17,201	19	8	Interest on Bank Loans	1,079	15	0
Total	431,720	3	3	Due to Bank on Loans and Overdrafts at beginning of year	17,516	8	2
				Total	431,720	3	3

3. MORTGAGES ACCOUNT

	£	s.	d.		£	s.	d.
Advances on Mortgage— On 1 Mortgage where the advance agreed to will exceed £1,000	8,420	0	0	Repayments of Advances and Interest	25,578	4	9
Total	8,420	0	0	Insurance Premiums	361	17	8
Interest	8,846	4	7	Due on Mortgages at end of year	111,298	14	2
Insurance Premiums	455	12	9				
Fines	781	8	8	Total	437,190	16	2
Further Advances on 2 Existing Mortgages	367	13	10				
Due on Mortgages at beginning of year	118,319	14	4				
Total	437,190	16	2				

5. REVENUE AND APPROPRIATION ACCOUNT

EXPENDITURE	£ s. d.	INCOME	£ s. d.
Management Expenses—		Interest on Mortgages	6,845 6 7
Remuneration of Staff and Auditors ...	776 0 9	Other amounts paid by Borrowers as con- sideration for Advances	128 0 0
Rents, Rates, Insurance, Heat, Light, Cleaning, Repairs, etc. (Office) ...	1,093 1 7	Bank Interest	91 5 0
Printing, Stationery and Postages ...	120 9 0	Rents, etc., from letting of Office Premises	2,325 0 0
Commission and Agency Fees ...	28 18 0	Survey Fees and Expenses	190 10 0
Total Management Expenses ...	2,088 9 4	Fines	791 8 8
Survey Fees and Expenses	37 12 6	Other Fees, Rules and Pass Books ...	16 11 6
Interest on Deposits and Loans (other than Loans from Bank)	282 3 2	Commission (Fire, Life, etc., Insurance)	81 5 10
Interest on Loans and Overdrafts from Bank	1,079 15 0	Excess Bank Interest and Charges Reclaimed	814 9 6
Income Tax up to 31/12/56	2,053 3 2	Excess Deposit Interest Reclaimed ...	21 3 8
Profits Tax for period ended 31/12/55 ...	155 7 7		
Interest, Dividend and Bonus to Shareholders for period ended 31/6/56	3,676 3 2		
Provision for proposed Interest, Dividend and Bonus to Shareholders for period ended 31/12/56	3,691 7 10		
Balance carried down	18 6		
Total	12,995 0 6	Total	12,995 0 6
Balance carried forward	2 18 2	Balance brought forward from last year ...	1 19 8
		Balance brought down	18 6
Total	£2 18 2	Total	£2 18 2

7(a). CAPITAL RESERVE ACCOUNT

	£ s. d.		£ s. d.
Reconstruction Blackpool Property	4,000 0 0	Balance at beginning of year	4,436 8 6
Balance at end of year	436 8 6		
Total	£4,436 8 6	Total	£4,436 8 6

8. BALANCE SHEET

LIABILITIES		£	s.	d.	ASSETS		£	s.	d.
Due to holders of various classes of Shares, viz.—					Balance due or outstanding on Mortgages, not including prospective interest—				
Paid-up Shares, Class 1 ..	1,320	0	0		Mortgage from Members where the repayments are not upwards of 12 months in arrear and the Property has not been upwards of 12 months in possession of the Society:				
Paid-up Shares, Class 2 ...	35,780	0	0		On 44 Mortgages where the debt does not exceed £100		10,505	6	10
Paid-up Shares, Class 3 ...	174,480	0	0		On 17 Mortgages where the debt exceeds £100 and does not exceed £1,000 ...		11,206	14	10
Subscription Shares ...	109	17	8		On 26 Mortgages where the debt exceeds £1,000 and does not exceed £3,000 ...		42,364	2	7
Total (as per A/c. No. 1)				211,689 17 8	On 6 Mortgages where the debt exceeds £3,000 and does not exceed £5,000 ...		19,419	12	10
Due to Creditors for Deposits and Loans—					On 1 Mortgage where the debt exceeds £5,000, as shown by Part I of the Schedule		8,053	18	11
(Deposits and Loans)							92,149	16	0
Deposits Repayable at 1 Month's Notice ...	379	1	6		Balance as shown in Parts II, and III, of the Schedule—				
Deposits Repayable at 3 Months' Notice ...	3,069	4	6		On 1 Mortgage on Property of which the Society has been upwards of 12 months in possession, as shown by Part II of the Schedule (Present amount included in assets) ...		790	12	8
Deposits Repayable at 6 Months' Notice ...	6,500	0	0		On 3 Mortgages where the repayments are upwards of 12 months in arrear, and the Property has not been upwards of 12 months in possession of the Society, as shown by Part III of the Schedule (Present debt) ...		18,310	5	6
Total (as per A/c. No. 2)				9,948 6 0	Total (as per A/c. No. 3) ...		111,250	14	2
Loans and overdrafts from Bank (as per A/c. No. 2)...					Cash at Bank and in Hand ...		11,853	6	0
Other Liabilities—				17,380 19 8	Other Assets—				
Income Tax up to 31/12/56	1,526	3	0		Office Premises	£	s.	d.	
Unpresented Interest Warrants	50	16	7		Furniture, Machines and	110,077	6	5	
Sundry Creditors	87	8	4		Equipment, etc.	6,070	6	4	
Total				1,664 7 11	Sundry Debtors, Stocks and				
Provisions—					Prepaid Accounts	5,693	12	10	
Interest, Dividend and Bonus	3,691	7	10		Total of Other Assets		121,841	5	7
Reserves—					Total (as per A/c. No. 5)				
Capital Reserve (as per A/c. No. 7 (a))				436 8 6					
Balance carried forward (as per A/c. No. 5)									
				2 18 2					
Total									
				£244,955 5 9					£244,955 5 9